

AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of South Lyon</u>	County Oakland
Audit Date June 30, 2004	Opinion Date August 9, 2004	Date Accountant Report Submitted To State: October 27, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of South Lyon, Michigan

Financial Report with Supplemental Information June 30, 2004

**City of South Lyon, Michigan
Financial Report
June 30, 2004**

MAYOR JOHN DOYLE, JR.

City Council

Ray Crawford, Mayor Pro Tem

Tedd M. Wallace

Ray Dryer

Don Schwarck

City Administration

City Manager

City Clerk/Treasurer

Police Chief

Fire Chief

Water and Wastewater Treatment Superintendent

Department of Public Works Superintendent

Director of Community and Economic Development

Building/Zoning Inspector

Building Inspector

Bookkeeper

Rodney L. Cook

Julie C. Zemke

Lloyd Collins

Craig Kaska

Robert Martin

Steve Renwick

Kristen Cunningham

Joe Veltri

Michael Jakubowski

Lori Mosier

City of South Lyon, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet to the Statement of Net Assets	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Fund - Enterprise Fund - Water and Sewer Fund	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Net Assets	15
Statement of Cash Flow	16
Notes to Financial Statements	17-36
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	37
Budgetary Comparison Schedule - Major Special Revenue Fund - Capital Improvements Fund	38
Pension System Schedule of Funding Progress	39
Other Supplemental Information	
Schedule of Expenditures - General Fund	40-41

Other Supplemental Information (Continued)

Nonmajor Governmental Funds:

Combining Balance Sheet - Special Revenue Funds and Debt Service Funds (Combined)	42
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Special Revenue Funds and Debt Service Funds (Combined)	43
Combining Balance Sheet - Nonmajor Special Revenue Funds	44
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	45-46
Expenditures by Activity - Major and Local Road Funds	47
Combining Balance Sheet - Nonmajor Debt Service Funds	48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Debt Service Funds	49
Schedule of Operating Expenses - Enterprise Fund	50-51

Statistical Information

Schedule of Taxes Levied, Collected, and Returned Delinquent - 2003 Tax Roll	52
Continuing Disclosure Undertaking	53-56

Independent Auditor's Report

To the Members of the City Council
City of South Lyon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of South Lyon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedule of funding progress, and budgetary comparisons are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Members of the City Council
City of South Lyon, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Lyon, Michigan's basic financial statements. The accompanying other supplemental information and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion in it.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City of South Lyon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in Note 1, the City of South Lyon, Michigan has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements as of July 1, 2003. In adopting this statement, the financial statements now include a management's discussion and analysis, government-wide full accrual financial statements, and reorganized fund-based statements.

Plante & Moran, PLLC

August 9, 2004

City of South Lyon, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of South Lyon, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Expenditures exceeded revenue in the General Fund, thus lowering fund balance by approximately \$318,000. This was due primarily to increased activity within the fire department, an unanticipated repair to the decking at the Witches Hat Depot, additional legal expense from a potential lawsuit from a developer, enforcement of property maintenance standards and associated court-ordered repairs, and increased cost of retirement contributions through MERS. These issues accounted for the bulk of the increased General Fund expenditures.
- Total net assets related to the City's governmental activities increased by approximately \$806,000.
- The construction of the new wastewater treatment plant proceeded as planned. The plant should be operational in November 2005.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements, by providing information about the City's most significant funds.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The City of South Lyon as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004:

TABLE I

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 8,683,128	\$ 10,298,393	\$ 18,981,521
Noncurrent assets	<u>15,650,079</u>	<u>26,971,737</u>	<u>42,621,816</u>
Total assets	24,333,207	37,270,130	61,603,337
Liabilities			
Current liabilities	1,899,235	1,910,061	3,809,296
Long-term liabilities	<u>3,372,815</u>	<u>11,481,378</u>	<u>14,854,193</u>
Total liabilities	<u>5,272,050</u>	<u>13,391,439</u>	<u>18,663,489</u>
Net Assets			
Invested in capital assets - Net of related debt	12,551,992	15,490,359	28,042,351
Restricted	1,419,613	1,297,931	2,717,544
Unrestricted	<u>5,089,552</u>	<u>7,090,401</u>	<u>12,179,953</u>
Total net assets	<u>\$ 19,061,157</u>	<u>\$ 23,878,691</u>	<u>\$ 42,939,848</u>

The City's combined net assets increased 3.1 percent from a year ago - increasing from \$41,628,912 to \$42,939,848. Net assets of both the governmental and business-type activities increased during the year. This is an indication that the taxpayers and users of City services paid the full cost of providing those services in the current year. This measurement is one of the goals of the new Governmental Accounting Standards Board Statement No. 34.

In future years, comparative information will be available, which will allow enhanced analysis of the changes in the City's net assets and the causes thereof; however, comparative information is not required for the first year of implementation of GASB Statement No. 34 and is not readily available this year.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, did not change significantly for the governmental activities. The current level of unrestricted net assets related to governmental activities is a surplus of \$8,285,356.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended June 30, 2004:

TABLE 2

	Governmental Activities	Business-type Activities	Total
Net Assets - July 1, 2003	\$ 18,254,665	\$ 23,374,247	\$ 41,628,912
Revenue			
Program revenue:			
Charges for services	805,284	2,017,380	2,822,664
Operating grants and contributions	648,588	-	648,588
Capital grants and contributions	444,878	521,410	966,288
General revenue:			
Property taxes	3,687,248	801,270	4,488,518
State-shared revenue	908,719	-	908,719
Interest	62,956	63,504	126,460
Transfers and other revenue	(11,255)	11,255	-
Total revenue	6,546,418	3,414,819	9,961,237
Program Expenses			
General government	1,126,460	-	1,126,460
Public safety	2,334,958	-	2,334,958
Public works	1,779,566	-	1,779,566
Community and economic development	33,911	-	33,911
Cultural and recreation	251,802	-	251,802
Interest on long-term debt	213,229	-	213,229
Water and sewer	-	2,910,375	2,910,375
Total program expenses	5,739,926	2,910,375	8,650,301
Change in Net Assets	806,492	504,444	1,310,936
Net Assets - June 30, 2004	\$ 19,061,157	\$ 23,878,691	\$ 42,939,848

Governmental Activities

The City's total governmental revenues increased by approximately \$275,000, due to the new grants received for the DDA Streetscape project (\$320,749 received during 2004). The increase represented a 4.4 percent jump from the prior year.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

As described earlier in this analysis, in future years, comparative information will be available, which will allow enhanced analysis of the City's activities; however, comparative information is not required for the first year of implementation of GASB Statement No. 34 and is not readily available this year.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water and sewage treatment to residents from our own system. In 2004, it was a wetter year than 2003, which resulted in decreased usage in the water system. The City Council did not increase the water and sewer rate during 2004.

The City of South Lyon's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The South Lyon City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as major and local road maintenance and debt service. The City's major funds for 2004 include the General Fund, the Capital Improvements Fund, the 1990 Building Authority Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$1,755,000 in 2004. Other government services accounted for in the General Fund include general government, the department of public works, the fire department, and recreation.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget on four occasions to account for changes made necessary due to unanticipated events or situations requiring increased expenditures within the fire department, Historic Depot, General Fund administration (legal) and ordinance enforcement, increased cost for construction for our park system (fencing), and increased cost for removal of Detroit Edison street lighting.

City departments overall stayed below budget. The City maintained total expenditures \$167,000 below budget.

Capital Asset and Debt Administration

At the end of 2004, the City had \$42,621,816 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The water and wastewater treatment department made major investments during the 2003-2004 fiscal year as a result of the ongoing construction of the new wastewater treatment plant. A total of \$10,286,378 of new construction costs were capitalized during the 2003-2004 fiscal year. The construction is being financed by a loan from the State of Michigan Revolving Fund that will be paid over 20 years beginning in October 2006.

The other significant addition to capital assets during 2003-2004 was the DDA Streetscape. A total of \$741,579 was spent during 2003-2004. Of this amount, \$320,749 was provided by a grant from the Michigan Department of Transportation.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year takes into consideration another potential decrease in state-shared revenues; however, given our healthy fund balance, we do not anticipate any reductions in service levels based on potential revenue reductions. Over the years, the City has had the flexibility to adjust various ad valorem tax rates as necessary and as determined by Headlee, Truth in Taxation, and Proposal A. The state-wide tax reform acts limit growth in taxable value to inflation or 5 percent, whichever is less. Inflation rates in recent years have only been in the range of 1.6 percent to 3.2 percent.

Due to the continuing residential growth within the City's corporate boundaries, our taxable tax base has continued to increase between \$15,000,000 and \$28,000,000 annually. Additionally, as existing homes are sold, their taxable value becomes "uncapped" at the time of exchange and is increased to the higher State Equalized Value. After the exchange, the annual limitations required by the Headlee Amendment and Proposal A begin to apply from that date forward, however, when there are exchanges, the City may experience an increase in taxable value on those properties.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

City of South Lyon, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 7,264,428	\$ 715,658	\$ 7,980,086	\$ 82,915
Receivables (Note 4)	1,296,791	1,255,186	2,551,977	-
Internal balances	(1,953)	1,953	-	-
Inventories	-	4,063	4,063	-
Due from component unit	1,000	-	1,000	-
Prepaid costs and other assets	122,862	7,697	130,559	-
Restricted assets (Note 3)	-	8,313,836	8,313,836	-
Capital assets (Note 5):				
Not being depreciated	3,195,804	11,610,805	14,806,609	-
Depreciable - Net	12,454,275	15,360,932	27,815,207	-
Total assets	24,333,207	37,270,130	61,603,337	82,915
Liabilities				
Accounts payable	499,945	1,810,694	2,310,639	-
Accrued and other liabilities	534,345	99,367	633,712	-
Due to primary government	-	-	-	1,000
Deferred revenue (Note 4)	864,945	-	864,945	-
Long-term debt (Note 7):				
Due within one year	654,913	75,000	729,913	-
Due in more than one year	2,717,902	11,406,378	14,124,280	-
Total liabilities	5,272,050	13,391,439	18,663,489	1,000
Net Assets				
Invested in capital assets -				
Net of related debt	12,551,992	15,490,359	28,042,351	-
Restricted (Note 11)	1,419,613	1,297,931	2,717,544	-
Unrestricted	5,089,552	7,090,401	12,179,953	81,915
Total net assets	\$ 19,061,157	\$ 23,878,691	\$ 42,939,848	\$ 81,915

City of South Lyon, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,126,460	\$ 582,945	\$ -	\$ -
Public safety	2,334,958	59,915	-	-
Public works	1,779,566	162,424	523,515	424,564
Community and economic development	33,911	-	125,073	-
Cultural and recreation	251,802	-	-	20,314
Interest on long-term debt	213,229	-	-	-
Total governmental activities	5,739,926	805,284	648,588	444,878
Business-type activities - Water and sewer	2,910,375	2,017,380	-	521,410
Total primary government	<u>\$ 8,650,301</u>	<u>\$ 2,822,664</u>	<u>\$ 648,588</u>	<u>\$ 966,288</u>
Component unit - Downtown Development Authority	<u>\$ 7,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - July 1, 2003				
Net Assets - June 30, 2004				

Statement of Activities Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (543,515)	\$ -	\$ (543,515)	\$ -
(2,275,043)	-	(2,275,043)	-
(669,063)	-	(669,063)	-
91,162	-	91,162	-
(231,488)	-	(231,488)	-
(213,229)	-	(213,229)	-
(3,841,176)	-	(3,841,176)	-
-	(371,585)	(371,585)	-
(3,841,176)	(371,585)	(4,212,761)	-
-	-	-	(7,066)
3,687,248	801,270	4,488,518	28,923
908,719	-	908,719	-
62,956	63,504	126,460	324
(11,255)	11,255	-	-
4,647,668	876,029	5,523,697	29,247
806,492	504,444	1,310,936	22,181
18,254,665	23,374,247	41,628,912	59,734
\$ 19,061,157	\$ 23,878,691	\$ 42,939,848	\$ 81,915

City of South Lyon, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General	Special Revenue Fund - Capital Improvements Fund	Debt Service Fund - 1990 Building Authority Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,345,705	\$ 2,125,370	\$ 177,100	\$ 1,616,253	\$ 7,264,428
Customer receivables	148,450	-	-	-	148,450
Due from other funds	-	-	-	242,514	242,514
Due from component unit	1,000	-	-	-	1,000
Due from South Lyon Community Schools (Note 4)	-	-	864,945	-	864,945
Due from other governmental units	197,239	-	-	86,157	283,396
Other current assets	117,345	-	-	5,517	122,862
Total assets	\$ 3,809,739	\$ 2,125,370	\$ 1,042,045	\$ 1,950,441	\$ 8,927,595
Liabilities					
Accounts payable	\$ 57,044	\$ 20,701	\$ -	\$ 422,200	\$ 499,945
Accrued and other liabilities	117,074	-	-	3,965	121,039
Due to other funds	5,230	239,237	-	-	244,467
Due to other governmental units	413	-	-	-	413
Cash bonds and deposits	387,535	10	-	-	387,545
Deferred revenue	-	-	864,945	-	864,945
Total liabilities	567,296	259,948	864,945	426,165	2,118,354
Fund Balances					
Reserved for future cemetery expenditures	-	-	-	40,392	40,392
Unreserved - Reported in major funds	3,142,919	1,383,353	177,100	-	4,703,372
Unreserved - Reported in nonmajor funds:					
Special Revenue Funds	-	-	-	1,353,879	1,353,879
Debt Service Funds	-	-	-	30,418	30,418
Unreserved - Designated for subsequent year's expenditures:					
General Fund	99,524	-	-	-	99,524
Special Revenue Funds	-	482,069	-	45,000	527,069
Debt Service Funds	-	-	-	54,587	54,587
Total fund balances	3,242,443	1,865,422	177,100	1,524,276	6,809,241
Total liabilities and fund balances	\$ 3,809,739	\$ 2,125,370	\$ 1,042,045	\$ 1,950,441	\$ 8,927,595

Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2004

Fund Balance - Total Governmental Funds

Amounts reported for governmental activities in the statement of net assets are different because:	\$ 6,809,241
Capital assets used in governmental activities are not financial resources and are not reported in the funds	15,650,079
Accrued interest on long-term liabilities is not reported in the funds	(25,348)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,372,815)

Net Assets - Governmental Activities

\$ 19,061,157

City of South Lyon, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General	Special Revenue Fund - Capital Improvements Fund	Debt Service Fund - 1990 Building Authority Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 2,500,204	\$ 764,974	\$ 221,848	\$ 118,591	\$ 3,605,617
Federal sources	-	320,749	-	83,718	404,467
State sources	908,719	19,425	-	504,090	1,432,234
Local sources	-	103,815	146,539	20,314	270,668
Licenses and permits	104,356	-	-	-	104,356
Charges for services	293,923	-	-	58,151	352,074
Fines and forfeitures	34,255	-	-	-	34,255
Interest and other	218,203	131,154	1,680	52,965	404,002
Total revenues	4,059,660	1,340,117	370,067	837,829	6,607,673
Expenditures					
General government	1,191,572	-	-	-	1,191,572
Public safety	2,251,625	-	-	-	2,251,625
DPW, cemetery, DDA Streetscape, and road improvements	733,645	859,914	-	1,015,972	2,609,531
Cultural and recreation	199,444	-	-	-	199,444
Capital outlay	-	-	-	93,876	93,876
Debt service	-	-	366,793	298,487	665,280
Total expenditures	4,376,286	859,914	366,793	1,408,335	7,011,328
Excess of Revenues Over (Under) Expenditures	(316,626)	480,203	3,274	(570,506)	(403,655)
Other Financing Sources (Uses)					
Operating transfers in from other funds (Note 6)	-	83,734	-	433,383	517,117
Operating transfers out to other funds (Note 6)	(4,990)	(321,765)	-	(201,617)	(528,372)
Operating transfers in from component unit (Note 6)	4,000	-	-	-	4,000
Total other financing sources (uses)	(990)	(238,031)	-	231,766	(7,255)
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(317,616)	242,172	3,274	(338,740)	(410,910)
Fund Balances - July 1, 2003	3,560,059	1,623,250	173,826	1,863,016	7,220,151
Fund Balances - June 30, 2004	<u>\$ 3,242,443</u>	<u>\$ 1,865,422</u>	<u>\$ 177,100</u>	<u>\$ 1,524,276</u>	<u>\$ 6,809,241</u>

City of South Lyon, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (410,910)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 718,491

Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 526,220

Change in accrued interest on long-term debt is not recorded in the governmental funds 4,673

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities (31,982)

Change in Net Assets of Governmental Activities \$ 806,492

City of South Lyon, Michigan

Proprietary Fund Statement of Net Assets - Enterprise Fund Water and Sewer Fund June 30, 2004

Assets

Current assets:

Cash and cash equivalents	\$ 715,658
Receivables:	
Customers	666,749
Due from other governmental units	588,437
Due from other funds	5,230
Other current assets	7,697
Total current assets	1,983,771

Noncurrent assets:

Other long-term assets	4,063
Restricted assets (Note 3)	8,313,836
Capital assets	26,971,737
Total noncurrent assets	35,289,636
Total assets	37,273,407

Liabilities

Accounts payable	1,810,694
Accrued and other liabilities	99,367
Due to other funds	3,277
Current portion of long-term debt	75,000
Total current liabilities	1,988,338
Long-term debt - Net of current portion	11,406,378
Total liabilities	13,394,716

Net Assets

Investment in capital assets - Net of related debt	15,490,359
Restricted	1,297,931
Unrestricted	7,090,401
Total net assets	\$ 23,878,691

City of South Lyon, Michigan

Proprietary Fund **Statement of Revenue, Expenses, and Changes in Net Assets** **Enterprise Fund - Water and Sewer Fund** **Year Ended June 30, 2004**

Operating Revenues

Water sales	\$ 583,847
Sewage disposal	824,892
Refuse collection	413,980
Billing and collection charges	79,654
Hydrant rental	25,050
Penalties assessed	<u>23,163</u>

Total operating revenues 1,950,586

Operating Expenses

Personnel services:	
Salaries and wages	496,442
Fringe benefits	253,540
Equipment repairs and maintenance	275,469
Public utilities	210,063
Refuse collection	416,564
Depreciation and amortization	733,433
Other services and charges	225,935
Supplies	140,975
Insurance	40,122
Other	<u>8,627</u>

Total operating expenses 2,801,170

Operating Loss (850,584)

Nonoperating Revenue (Expense)

Property taxes	801,270
Interest income	63,504
Interest expense	(109,205)
Other income	<u>66,794</u>

Total nonoperating revenue 822,363

Loss - Before other financing sources (uses) and capital contributions (28,221)

Other Financing Sources (Uses)

Operating transfers in (Note 6)	70,578
Operating transfers out (Note 6)	<u>(59,323)</u>

Total financing sources 11,255

Capital Contributions 521,410

Change in Net Assets 504,444

Net Assets - July 1, 2003 23,374,247

Net Assets - June 30, 2004 \$ 23,878,691

City of South Lyon, Michigan

Proprietary Fund Statement of Cash Flows - Enterprise Fund - Water and Sewer Fund Year Ended June 30, 2004

Cash Flows from Operating Activities

Receipts from customers	\$ 1,907,579
Payments to suppliers	(1,191,537)
Payments to employees	(759,087)
Internal activity - Payments to other funds	<u>(128,738)</u>
Net cash used in operating activities	(171,783)

Cash Flows from Capital and Related Financing Activities

Collection of customer assessments	531,003
Proceeds from long-term debt	7,800,706
Principal and interest paid on long-term debt	(184,205)
Property tax revenue received	801,270
Operating transfers from Debt Service Funds	70,578
Operating transfers to Debt Service Funds	(59,323)
Purchase of capital assets	<u>(8,030,451)</u>
Net cash provided by capital and related financing activities	929,578

Cash Flows from Investing Activities - Interest received on investments 130,298

Net Increase in Cash and Cash Equivalents 888,093

Cash and Cash Equivalents - July 1, 2003 8,141,401

Cash and Cash Equivalents - June 30, 2004 \$ 9,029,494

Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 715,658
Restricted assets (Note 3)	<u>8,313,836</u>
Total	<u><u>\$ 9,029,494</u></u>

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (850,584)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	733,433
Changes in assets and liabilities:	
Receivables	(37,693)
Due from other funds	(1,381)
Prepaid and other assets	(5,314)
Accounts payable	126,218
Accrued and other liabilities	(9,105)
Due to other funds	<u>(127,357)</u>
Net cash used in operating activities	<u><u>\$ (171,783)</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of South Lyon, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. For the year beginning July 1, 2003, the City has adopted GASB Statement No. 34. By adopting this statement, the City has dramatically changed the information reported in these financial statements. The following is a summary of the significant accounting policies under this new financial model:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City of South Lyon, Michigan and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City and separate financial statements are not issued for the component unit.

The South Lyon Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to acquire and lease property to the City.

Discretely Presented Component Unit

- a. The Downtown Development Authority ("DDA") of the City is reported in a separate column to emphasize that it is legally separate from the City. The DDA was created in an effort to correct and prevent the deterioration of the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is appointed by the city manager and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue a separate financial report.
- b. The Economic Development Corporation ("EDC") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to residents of the City. The EDC's governing body consists of seven individuals who are appointed by the City Council. The EDC had no activity during the fiscal year ended June 30, 2004, and has no financial resources as of June 30, 2004. Accordingly, there is no financial information for the EDC included in these financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the Downtown Development Authority, a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, special assessments, state-shared revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. All other revenue items, such as fines and permits, are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Improvements Fund - The Capital Improvements Fund is used to account for special tax levies and other resources used for the development of various capital assets acquired or constructed by the City.

1990 Building Authority Fund - The 1990 Building Authority Fund is used primarily to account for transactions between the City and South Lyon Community Schools in relation to the joint administration building.

The City reports the following major proprietary fund:

Enterprise Fund - Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts had been recorded, as the City believes all receivables will be collected.

Property Taxes - Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are due on September 15 with the final collection date of February 28 before they are added to the delinquent county tax rolls.

The 2003 taxable valuation of the City totaled approximately \$322.7 million, on which ad valorem taxes levied consisted of 11.0000 mills for the City's operating purposes and 2.7500 mills for water and sewer debt service. The ad valorem taxes levied raised approximately \$3.6 million for City operations and approximately \$888,000 for water and sewer debt service. These amounts are recognized in the respective General Fund, Special Revenue Funds, Debt Service Funds, and Enterprise Fund financial statements as taxes receivable or as tax revenue.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - A portion of water and sewer tap-in fees are required by local ordinance to be restricted for water and wastewater system improvements and equipment replacement. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and a useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Roads, buildings, equipment, and vehicles are depreciated using the straight-line method over their estimated useful lives:

Wastewater treatment plant and equipment	10 to 40 years
Water treatment plant and equipment	10 to 40 years
Utility system, buildings, and improvements	17 to 40 years
Roads and sidewalks	20 to 25 years
Buildings and improvements	15 to 40 years
Other tools, furniture, and equipment	5 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policy, employees earn sick and vacation time based on time of service with the City. All vacation and sick pay is accrued when incurred in the government-wide financial statements. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. On the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and all Special Revenue Funds, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Unexpended appropriations lapse at year end. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the City Council) for the General Fund and Major Special Revenue Funds is presented as required supplemental information. Information comparing other Special Revenue Funds activity to the respective budgets can be obtained at City Hall.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Operating transfer out	\$ -	\$ 4,990

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of City funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and such obligations, bonds, and securities as permitted by the statutes of the State of Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

At year end, the City's cash and cash equivalents consist solely of deposits with financial institutions. The deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit
Cash and cash equivalents	\$ 7,264,428	\$ 715,658	\$ 7,980,086	\$ 82,915
Restricted assets	-	8,313,836	8,313,836	-
Total	<u>\$ 7,264,428</u>	<u>\$ 9,029,494</u>	<u>\$ 16,293,922</u>	<u>\$ 82,915</u>

The restricted assets, totaling \$8,313,836, consist of cash and cash equivalents held for water and wastewater system improvements and equipment replacement.

Deposits

The bank balance of the primary government's deposits is \$16,411,891, of which \$500,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The component units' deposits had a bank balance of \$82,915, all of which was covered by federal depository insurance. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables

The City's receivables of governmental and business activities are as follows:

	Governmental Activities				Total Governmental Activities	Total Business- type Activities
	General Fund	Capital Improvements Fund	1990 Building Authority Fund	Nonmajor and Other Funds		
Receivables:						
Customers	\$ 148,450	\$ -	\$ -	\$ -	\$ 148,450	\$ 666,749
Intergovernmental	197,239	-	-	86,157	283,396	588,437
South Lyon Community Schools	-	-	864,945	-	864,945	-
Total receivables	<u>\$ 345,689</u>	<u>\$ -</u>	<u>\$ 864,945</u>	<u>\$ 86,157</u>	<u>\$ 1,296,791</u>	<u>\$ 1,255,186</u>

The City considers all receivables to be collectable and has not recorded an allowance for doubtful accounts.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received by not yet earned. At the end of the current fiscal year, deferred revenue consists of payments not yet received from the South Lyon Community Schools (the "Schools") in relation to the lease agreement between the City and the Schools.

In a prior year, the South Lyon Building Authority, in cooperation with the City and the Schools, constructed a joint administrative building. The City entered into a lease agreement with the South Lyon Building Authority relating to the use of the administrative building. In addition, the Schools entered into a lease agreement with the City to sublease a portion of the building. Under the terms of these agreements, the City's and the Schools' rental payments will equal an amount sufficient to pay the debt service requirements and other related costs. The rental payments by the City and the Schools are based on the amount of allocated space utilized by each entity. As of June 30, 2004, the City's and the Schools' estimated share of the debt service was 41.95 percent and 58.05 percent, respectively.

Ownership of the building and land will be transferred at no cost to the Schools upon full payment and retirement of the bonds and the receipt of all rental payments by the City. However, the City has met the requirement to record the building as a capital lease and has accordingly recorded 41.95 percent of the cost and the debt balance in governmental activities.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables (Continued)

As of June 30, 2004, the estimated future minimum lease payments to be received by the City from the Schools are as follows:

2005	\$ 147,418
2006	148,207
2007	148,608
2008	148,608
2009	151,220
2010	150,495
2011	<u>152,381</u>
Total	1,046,937
Less portion representing interest	<u>(181,992)</u>
Net	<u><u>\$ 864,945</u></u>

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004	Depreciable Life - Years
Governmental Activities					
Capital assets not being depreciated - Land	\$ 3,195,804	\$ -	\$ -	\$ 3,195,804	-
Capital assets being depreciated:					
Roads and sidewalks	9,142,568	512,391	-	9,654,959	20-25
Buildings and improvements	4,645,276	846,979	-	5,492,255	15-40
Other tools, furniture, and equipment	<u>2,158,785</u>	<u>191,299</u>	<u>-</u>	<u>2,350,084</u>	5-15
Subtotal	15,946,629	1,550,669	-	17,497,298	
Accumulated depreciation:					
Roads and sidewalks	2,221,064	411,516	-	2,632,580	
Buildings and improvements	766,212	144,687	-	910,899	
Other tools and equipment	<u>1,223,569</u>	<u>275,975</u>	<u>-</u>	<u>1,499,544</u>	
Subtotal	<u>4,210,845</u>	<u>832,178</u>	<u>-</u>	<u>5,043,023</u>	
Net capital assets being depreciated	<u>11,735,784</u>	<u>718,491</u>	<u>-</u>	<u>12,454,275</u>	
Net capital assets	<u>\$ 14,931,588</u>	<u>\$ 718,491</u>	<u>\$ -</u>	<u>\$ 15,650,079</u>	

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004	Depreciable Life - Years
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 147,317	\$ -	\$ -	\$ 147,317	-
Construction in progress	2,818,132	8,645,356	-	11,463,488	-
Total capital assets not being depreciated	2,965,449	8,645,356	-	11,610,805	
Capital assets being depreciated:					
Wastewater treatment plant and equipment	13,887,703	36,700	-	13,924,403	10-40
Water treatment plant and equipment	2,465,086	63,332	-	2,528,418	10-40
Utility system, buildings, and improvements	9,349,154	115,857	-	9,465,011	17-40
Other tools, furniture, and equipment	443,127	46,955	-	490,082	5-10
Subtotal	26,145,070	262,844	-	26,407,914	
Accumulated depreciation	10,314,587	732,395	-	11,046,982	
Net capital assets being depreciated	15,830,483	(469,551)	-	15,360,932	
Net capital assets	<u>\$ 18,795,932</u>	<u>\$ 8,175,805</u>	<u>\$ -</u>	<u>\$ 26,971,737</u>	

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 84,331
Public safety	204,259
Public works	502,992
Community and economic development	9,270
Recreation and culture	31,326

Total governmental activities \$ 832,178

Business-type activities - Enterprise Fund - Water and Sewer Fund \$ 732,395

Future Commitments

The City has entered into various contracts for capital improvements to the City's wastewater treatment plant. The improvements, totaling \$17,250,000, are being funded by a loan from the State of Michigan's State Revolving Fund (see Note 7). As of June 30, 2004, the improvements to the plant have totaled \$11,463,488.

Note 6 - Interfund Balances and Operating Transfers

The composition of interfund receivables and payables balances is as follows:

General Fund:

Downtown Development Authority	\$ 1,000
Agency - Tax Collection Fund	<u>1,040</u>
Total General Fund	2,040

Special Revenue Funds:

Major Roads Fund:

Capital Improvements Fund	138,762
Water and Sewer Fund	<u>2,345</u>
Total Major Roads Fund	141,107

Local Roads Fund:

Capital Improvements Fund	100,475
Water and Sewer Fund	<u>932</u>
Total Local Roads Fund	<u>101,407</u>

Total Special Revenue Funds 242,514

Enterprise Fund - Water and Sewer Fund - General Fund 5,230

Total interfund receivables \$ 249,784

Interfund balances represent routine and temporary cash flow assistance.

Note 6 - Interfund Balances and Operating Transfers (Continued)

The composition of operating transfers is as follows:

Operating Transfer Out	Operating Transfer In	Amount
General Fund	Major Road Fund	\$ 4,990
Special Revenue Funds:		
Major Road Fund	1996 Transportation Bonds Fund	47,305
Community Development Block Grant Fund	Capital Improvements Fund	83,718
Trailway Management Council Fund	Capital Improvements Fund	16
Capital Improvements Fund	Major Road Fund	138,762
Capital Improvements Fund	Local Road Fund	176,235
Capital Improvements Fund	Trailway Management Council Fund	6,768
Total Capital Improvements Funds		<u>321,765</u>
Total transfers out of Special Revenue Funds		452,804
Debt Service Funds - FHA Sewage Disposal System	Enterprise - Water and Sewer Fund	70,578
Enterprise - Water and Sewer Fund	2000 G.O. Water Bonds Fund	59,323
Downtown Development Authority	General Fund	<u>4,000</u>
Total operating transfers		<u>\$ 591,695</u>

Transfers from the Major Road Fund and Enterprise - Water and Sewer Fund to the Debt Service Funds and from the Debt Service Fund to the Enterprise - Water and Sewer Fund provide for debt payments. Transfers from the Capital Improvements Fund to the nonmajor governmental funds provide for capital improvements. Finally, transfers from the Community Development Block Grant Fund to Capital Improvements Fund provide for grant-related capital improvements.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	July 1, 2003	Additions	Reductions	June 30, 2004	Due Within One Year
Governmental Activities					
General obligation bonds:					
1996 Transportation Bonds	\$ 135,000	\$ -	\$ (40,000)	\$ 95,000	\$ 45,000
1996 Building Authority Bonds	1,660,000	-	(170,000)	1,490,000	180,000
1996 Advance Refunding Bonds	185,000	-	(175,000)	10,000	10,000
1999 Building Authority Bonds	1,180,000	-	(55,000)	1,125,000	55,000
1991 Special assessment bonds - Nine Mile construction	25,000	-	(10,000)	15,000	10,000
Compensated absences	242,746	31,982	-	274,728	274,728
Installment purchase agreements:					
1996 Fire truck installment contract	62,752	-	(30,642)	32,110	32,110
2000 Fire truck installment contract	376,555	-	(45,578)	330,977	48,075
Total governmental activities	<u>\$ 3,867,053</u>	<u>\$ 31,982</u>	<u>\$ (526,220)</u>	<u>\$ 3,372,815</u>	<u>\$ 654,913</u>
Business-type Activities					
General obligation debt:					
2000 Unlimited Tax Water Bonds	\$ 1,265,000	\$ -	\$ (70,000)	\$ 1,195,000	\$ 75,000
2003 State of Michigan Revolving Fund Loan	1,897,235	8,389,143	-	10,286,378	-
Special assessment bonds - Sewer improvement	5,000	-	(5,000)	-	-
Total business-type activities	<u>\$ 3,167,235</u>	<u>\$ 8,389,143</u>	<u>\$ (75,000)</u>	<u>\$ 11,481,378</u>	<u>\$ 75,000</u>

Note 7 - Long-term Debt (Continued)

Other information concerning long-term debt obligations is as follows:

	Original Principal	Outstanding Debt June 30, 2004	Interest Rate	Final Payment Date	Maturity Payment Ranges
Governmental Activities					
General obligation bonds:					
1996 Transportation Bonds	\$ 350,000	\$ 95,000	5.20%-5.25%	03/01/2006	\$45,000-\$50,000
1996 Building Authority Bonds	2,650,000	1,490,000	4.80%-5.00%	05/01/2011	\$180,000-\$250,000
1996 Advance Refunding Bonds	1,150,000	10,000	4.80%	09/01/2004	\$10,000
1999 Building Authority Bonds	1,370,000	1,125,000	4.70%-5.20%	05/01/2019	\$55,000-\$100,000
1991 Special assessment - Nine Mile construction	155,000	15,000	7.10%	10/01/2005	\$5,000-\$10,000
Installment purchase agreements:					
1996 Fire truck installment contract	219,318	32,110	1.95%	10/01/2004	\$32,110
2000 Fire truck installment contract	500,000	330,977	3.33%	06/01/2010	\$48,075-\$62,771
Total governmental activities - Excluding compensated absences	<u>\$ 6,394,318</u>	<u>3,098,087</u>			
Compensated absences		<u>274,728</u>			
Total governmental activities		<u>\$ 3,372,815</u>			
Business-type Activities					
General obligation debt:					
2000 Unlimited Tax Water Bonds	\$ 1,400,000	\$ 1,195,000	4.40% - 5.20%	09/01/2015	\$75,000-\$130,000
2003 State of Michigan Revolving Fund Loan	<u>10,286,378</u>	<u>10,286,378</u>	2.50%	10/01/2025	\$379,387-\$607,175
Total business-type activities	<u>\$ 11,686,378</u>	<u>\$ 11,481,378</u>			

The special assessment bonds represent the financing of public improvements that benefit a specific district; this district is specially assessed, at least in part, for the cost of the improvements. At June 30, 2004, the City had \$32,303 set aside in the 1991 Special Assessment Debt Service Fund for repayment of the Nine Mile construction special assessment bonds. Under Michigan law, the City is secondarily liable for payment of these bonds.

The City has entered into an agreement with the State of Michigan to borrow up to \$17,250,000 from the State Revolving Fund in order to pay for the capital improvements to the City's wastewater treatment plant. Interest payments on the loan began in October 2003. The loan principal will be repaid over 20 years in annual installments beginning in October 2006. As of June 30, 2004, the outstanding loan balance is \$10,286,378.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the City's long-term obligations, except compensated absences, are as follows:

Fiscal Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 380,186	\$ 155,227	\$ 535,413	\$ 75,000	\$ 103,306	\$ 178,306
2006	350,710	137,504	488,214	80,000	99,876	179,876
2007	313,489	120,027	433,516	482,510	169,608	652,118
2008	326,417	104,276	430,693	496,455	165,669	662,124
2009	349,512	87,864	437,376	513,381	161,961	675,342
2010	367,773	70,232	438,005	527,326	157,336	684,662
2011	320,000	51,613	371,613	544,252	152,906	697,158
2012	75,000	35,613	110,613	561,179	148,030	709,209
2013	75,000	31,825	106,825	575,123	142,181	717,304
2014	80,000	28,000	108,000	597,049	136,458	733,507
2015	85,000	23,920	108,920	613,976	130,244	744,220
2016	90,000	19,500	109,500	633,883	124,136	758,019
2017	90,000	14,820	104,820	515,810	120,605	636,415
2018	95,000	10,140	105,140	527,736	120,399	648,135
2019	100,000	5,200	105,200	542,644	120,681	663,325
2020	-	-	-	554,570	120,351	674,921
2021	-	-	-	569,478	120,509	689,987
2022	-	-	-	584,386	120,598	704,984
2023	-	-	-	599,293	120,619	719,912
2024	-	-	-	614,201	120,571	734,772
2025	-	-	-	629,109	120,454	749,563
2026	-	-	-	644,017	120,268	764,285
Totals	<u>\$ 3,098,087</u>	<u>\$ 895,761</u>	<u>\$ 3,993,848</u>	<u>\$ 11,481,378</u>	<u>\$ 2,896,766</u>	<u>\$ 14,378,144</u>

Total interest incurred related to governmental activities for the year approximated \$214,000. Total interest incurred related to business-type activities for the year approximated \$109,000.

Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$165,000 of bonds outstanding are considered defeased.

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for workers' compensation, medical, health, life, and disability claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general law enforcement, emergency medical, public errors and omissions, and auto liabilities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plans

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48197.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by resolution of the City Council and negotiation with the competitive bargaining unit representing union employees. The plan requires a contribution of 3.4 percent from clerical employees. The employer contribution ranges from 5.72 percent to 8.79 percent of gross compensation based on the employee's classification. Pension benefits are based on 2.25 percent of the five-year final average compensation, with a maximum of 80 percent of final average compensation for AFSCME employees and 2 percent of the five-year final average compensation for all other employees. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee.

Note 9 - Defined Benefit Pension Plans (Continued)

Annual Pension Costs

For the year ended June 30, 2004, the City's annual pension cost amounted to \$177,336. The City's required contribution was equal to the annual pension cost as determined by the actuarial valuation. In addition, the City contributed \$30,825 on behalf of the general employees, as negotiated with the collective bargaining union. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal cost actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded liability is being amortized as a level percentage of payroll on a closed basis.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension costs (APC)	\$ 177,336	\$ 95,006	\$ 42,138
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2003	2002	2001
Actuarial value of assets	\$ 4,368,053	\$ 4,085,321	\$ 4,039,765
Actuarial accrued liability			
(AAL)(entry)	\$ 5,672,607	\$ 5,122,440	\$ 4,563,284
Unfunded AAL (UAAL)	\$ 1,304,554	\$ 1,037,119	\$ 523,519
Funded ratio	77.0%	79.8%	88.5%
Covered payroll	\$ 2,345,282	\$ 2,175,461	\$ 2,122,645
UAAL as a percentage of covered payroll	55.6%	47.7%	24.7%

Note 10 - Joint Ventures

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC), the South Lyon Area Recreation Council (SLARC), and the Western Oakland County Trailway Management Council (WOCTMC). RRRASOC is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. SLARC is incorporated by the City of South Lyon and the Charter Townships of Lyon and Green Oak. WOCTMC is incorporated by the City of South Lyon, the Charter Townships of Lyon and Milford, and the Huron Metropark Authority. The City appoints one member to each of the joint ventures' governing boards, which then approve the annual budgets. The joint ventures receive their operating revenue from member contributions and miscellaneous income. During the current year, the City contributed the following amounts:

Entity	Contribution
RRRASOC	\$ 14,924
SLARC	25,168
WOCTMC	6,768

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for RRRASOC can be obtained from RRRASOC's office at 43315 Sixth Gate, Novi, Michigan 48375, for SLARC at SLARC's office at 318 W. Lake Street, South Lyon, MI 48178, and for WOCTMC at WOCTMC's office at 58000 Grand River, New Hudson, MI 48165.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2004

Note 11 - Restricted Net Assets

Net assets have been restricted for the following purposes:

Restricted for	Total	
	Governmental Activities	Business-type Activities
Road improvements	\$ 574,918	\$ -
Law enforcement	49,141	-
Cemetery	533,449	-
Debt service	262,105	-
State Revolving Fund loan	-	1,297,931
Total	<u>\$ 1,419,613</u>	<u>\$ 1,297,931</u>

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Building permit revenue	\$ 143,995
Related expenses:	
Direct costs	250,401
Estimated indirect costs	<u>10,702</u>
Total construction code expenses	<u>(261,103)</u>
Shortfall	(117,108)
Cumulative shortfall - July 1, 2003	<u>(223,298)</u>
Cumulative shortfall - June 30, 2004	<u>\$ (340,406)</u>

Note 13 - Capital Improvements Fund Expenditures

The expenditures of the Capital Improvements Fund for the year ended June 30, 2004 are as follows:

Professional services:

DDA Streetscape	\$ 99,142	
Griswold paving	238	
Second Street	50,497	
Wells Street parking lot	13,170	
South Lyon drain	<u>1,285</u>	
Total professional services		\$ 164,332

Construction:

DDA Streetscape	642,438	
Griswold paving	52,631	
DPW staffing facility	<u>513</u>	
Total construction		<u>695,582</u>

Total community maintenance and development expenditures	<u><u>\$ 859,914</u></u>
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Required Supplemental Information

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
Property taxes	\$ 2,536,355	\$ 2,536,355	\$ 2,500,204	\$ (36,151)
State-shared revenue	869,000	869,000	908,719	39,719
Licenses and permits	100,000	100,000	104,356	4,356
Charges for services	268,000	268,000	293,923	25,923
Fines and forfeitures	27,500	27,500	34,255	6,755
Interest and other	195,000	201,000	218,203	17,203
Transfers from component unit	36,000	-	4,000	4,000
Total revenue	4,031,855	4,001,855	4,063,660	61,805
Expenditures				
General government	1,120,400	1,235,300	1,191,572	(43,728)
Public safety	2,225,727	2,285,572	2,251,625	(33,947)
Cemetery and DPW	755,150	755,150	733,645	(21,505)
Culture and recreation	207,396	267,396	199,444	(67,952)
Transfers to other funds	-	-	4,990	4,990
Total expenditures	4,308,673	4,543,418	4,381,276	(162,142)
Excess of Expenditures Over Revenue	(276,818)	(541,563)	(317,616)	223,947
Fund Balance - July 1, 2003	3,560,059	3,560,059	3,560,059	-
Fund Balance - June 30, 2004	<u>\$ 3,283,241</u>	<u>\$ 3,018,496</u>	<u>\$ 3,242,443</u>	<u>\$ 223,947</u>

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Capital Improvements Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenue				
Property taxes	\$ 766,360	\$ 766,360	\$ 764,974	\$ (1,386)
Federal sources	320,749	320,749	320,749	-
State sources	-	-	19,425	19,425
Local sources	163,250	66,750	103,815	37,065
Interest and other	122,000	122,000	131,154	9,154
Transfers from other funds	-	-	83,734	83,734
Total revenue	1,372,359	1,275,859	1,423,851	147,992
Expenditures				
Professional services	144,000	174,000	164,332	(9,668)
Construction expense	1,092,000	863,380	695,582	(167,798)
Transfers to other funds	883,580	883,580	321,765	(561,815)
Total expenditures	2,119,580	1,920,960	1,181,679	(739,281)
Excess of Revenue Over (Under) Expenditures	(747,221)	(645,101)	242,172	887,273
Fund Balance - July 1, 2003	1,623,250	1,623,250	1,623,250	-
Fund Balance - June 30, 2004	<u>\$ 876,029</u>	<u>\$ 978,149</u>	<u>\$ 1,865,422</u>	<u>\$ 887,273</u>

City of South Lyon, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
Michigan Municipal Employees' Retirement System						
6/30/2001	\$ 4,039,765	\$ 4,563,284	\$ 523,519	88.5%	\$ 2,122,645	24.7%
6/30/2002	4,085,321	5,122,440	1,037,119	79.8%	2,175,461	47.7%
6/30/2003	4,368,053	5,672,607	1,304,554	77.0%	2,345,282	55.6%

The schedule of employer contributions are as follows:

Michigan Municipal Employees' Retirement System				
Fiscal Year Ended	Actuarial Valuation Date	Annual Required	Percentage Contributed	
06/30/02	12/31/99	\$ 42,138	100.0	
06/30/03	12/31/00	95,006	100.0	
06/30/04	12/31/01	177,336	100.0	

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, the latest actuarial valuation, follows:

Michigan Municipal Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.0%
Projected salary increases*	4.5% - 8.66%
*Includes inflation at	4.5%
Cost of living adjustments	No cost of living adjustment

Other Supplemental Information

City of South Lyon, Michigan

	General	Public Safety		
		Police	Fire	Ambulance
Expenditures	Government			
Salaries and wages	\$ 455,303	\$ 1,140,133	\$ 29,651	\$ -
Salaries and wages - Mechanic	-	-	-	-
Reimbursement of mechanic wages	-	-	-	-
Fringe benefits:				
Payroll taxes and insurance	148,244	341,346	23,037	-
Uniforms	-	16,037	13,796	-
Education and training	4,752	3,205	13,671	-
Total fringe benefits	152,996	360,588	50,504	-
Operating supplies	18,635	17,635	25,144	-
Printing and publishing	11,575	-	-	-
Professional services	17,345	22,338	-	-
Contractual services	151,778	-	-	-
Audit	24,088	-	-	-
Planning consultant	9,360	-	-	-
Elections	9,565	-	-	-
Legal fees	89,942	29,400	-	-
Dues and memberships	11,625	327	3,008	-
Telephone	6,245	11,960	7,921	-
Conference and travel	5,524	94	-	-
Insurance and bonds	35,054	16,619	16,630	51
Utilities	15,726	12,928	8,227	2,288
Maintenance:				
Building	7,580	6,801	4,604	-
General	-	6,520	6,711	220
Vehicle	2,452	20,897	31,361	-
Radio	-	2,008	7,941	-
Gas and oil	-	12,736	3,407	4,339
Sundry	7,594	142	-	-
Community relations	122,136	-	-	-
Capital improvements	-	52,753	-	-
Land beautification	13,495	-	-	-
Equipment purchases	8,630	2,649	13,570	-
Land improvements	-	-	-	-
Recycling charges	14,924	-	-	-
Debt service	-	-	89,951	-
Ammunition	-	2,670	-	-
South Lyon Firefighters Association	-	-	156,911	-
Radio dispatching	-	36,122	8,816	-
Equipment rental	-	-	25,050	-
Traffic and street lights	-	-	-	-
Total expenditures	1,191,572	1,755,320	489,407	6,898
Transfer to Other Funds	-	-	-	-
Total expenditures and transfers to other funds - Budget basis	\$ 1,191,572	\$ 1,755,320	\$ 489,407	\$ 6,898

Other Supplemental Information
Schedule of Expenditures
General Fund
June 30, 2004

Community Maintenance and Development		Culture and Recreation			Year Ended June 30	
Cemetery	Public Works	Parks and Recreation	Senior Transportation	Historical Depot	2004	2003
\$ 20,058	\$ 153,185	\$ 30,730	\$ 37,482	\$ -	\$ 1,866,542	\$ 1,700,780
-	30,694	-	-	-	30,694	31,421
-	(30,694)	-	-	-	(30,694)	(31,421)
8,581	128,338	9,210	3,570	-	662,326	519,015
-	3,422	-	-	-	33,255	29,755
-	361	-	-	-	21,989	16,193
8,581	132,121	9,210	3,570	-	717,570	564,963
5,373	31,543	15,522	-	-	113,852	103,278
-	-	-	-	-	11,575	11,272
27,017	17,272	1,506	-	-	85,478	142,480
-	-	-	-	-	151,778	95,218
-	-	-	-	-	24,088	40,633
-	-	-	-	-	9,360	8,850
-	-	-	-	-	9,565	8,909
-	-	-	-	-	119,342	56,879
-	-	-	-	-	14,960	18,481
-	3,235	-	-	-	29,361	29,766
-	16	-	-	-	5,634	6,099
416	16,853	612	1,248	733	88,216	78,579
833	21,234	618	575	9,511	71,940	67,565
-	27,118	-	-	3,526	49,629	33,964
205	-	4,134	-	39,621	57,411	21,957
-	82,203	-	1,964	-	138,877	127,577
-	-	-	-	-	9,949	6,867
-	28,127	-	2,342	-	50,951	41,846
-	-	-	320	211	8,267	11,066
-	-	-	-	4,746	126,882	120,038
-	-	-	-	7,785	60,538	122,791
-	-	-	-	-	13,495	21,463
825	4,995	22,880	-	-	53,549	113,177
-	18,240	-	-	598	18,838	15,228
-	-	-	-	-	14,924	15,859
-	-	-	-	-	89,951	99,063
-	-	-	-	-	2,670	2,446
-	-	-	-	-	156,911	120,723
-	-	-	-	-	44,938	47,308
-	20,076	-	-	-	45,126	85,050
-	114,119	-	-	-	114,119	73,781
63,308	670,337	85,212	47,501	66,731	4,376,286	4,013,956
-	4,990	-	-	-	4,990	-
\$ 63,308	\$ 675,327	\$ 85,212	\$ 47,501	\$ 66,731	\$ 4,381,276	\$ 4,013,956

City of South Lyon, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Year Ended June 30, 2004

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,531,248	\$ 85,005	\$ 1,616,253
Due from other governmental units	86,157	-	86,157
Due from other funds	242,514	-	242,514
Other current assets	5,517	-	5,517
	<u>5,517</u>	<u>-</u>	<u>5,517</u>
Total assets	<u><u>\$ 1,865,436</u></u>	<u><u>\$ 85,005</u></u>	<u><u>\$ 1,950,441</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 422,200	\$ -	\$ 422,200
Accrued and other liabilities	3,965	-	3,965
	<u>3,965</u>	<u>-</u>	<u>3,965</u>
Total liabilities	426,165	-	426,165
Fund Balances			
Reserved for future cemetery expenditures	40,392	-	40,392
Unreserved:			
Designated for subsequent year's expenditures	45,000	54,587	99,587
Undesignated	1,353,879	30,418	1,384,297
	<u>1,353,879</u>	<u>30,418</u>	<u>1,384,297</u>
Total fund balances	<u>1,439,271</u>	<u>85,005</u>	<u>1,524,276</u>
Total liabilities and fund balances	<u><u>\$ 1,865,436</u></u>	<u><u>\$ 85,005</u></u>	<u><u>\$ 1,950,441</u></u>

City of South Lyon, Michigan

Other Supplemental Information Combined Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Year Ended June 30, 2004

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Revenues			
Property taxes	\$ 38,450	\$ 80,141	\$ 118,591
Federal sources	83,718	-	83,718
State sources	504,090	-	504,090
Local sources	20,314	-	20,314
Charges for services	58,151	-	58,151
Interest and other	52,376	589	52,965
Total revenues	757,099	80,730	837,829
Expenditures			
Community maintenance and development:			
Professional services:			
Major Street Paving Program - McHattie	76,475	-	76,475
Local Street Paving Program - Detroit, Lenox, and Washington	89,480	-	89,480
Other	65,261	-	65,261
Construction:			
Major Street Paving Program - McHattie	266,655	-	266,655
Local Street Paving Program - Detroit, Lenox, and Washington	193,214	-	193,214
Rail trail	25,000	-	25,000
Street routine maintenance	215,157	-	215,157
Traffic services	13,996	-	13,996
Snow plowing	66,324	-	66,324
Drainage and backsloping	4,410	-	4,410
Total community maintenance and development	1,015,972	-	1,015,972
Capital outlay	93,876	-	93,876
Debt principal payments	-	225,000	225,000
Interest and fiscal charges	-	73,487	73,487
Total expenditures	1,109,848	298,487	1,408,335
Excess of Expenditures Under Revenues	(352,749)	(217,757)	(570,506)
Other Financing Sources (Uses)			
Operating transfers in	326,755	106,628	433,383
Operating transfers out	(131,039)	(70,578)	(201,617)
Total other financing sources	195,716	36,050	231,766
Excess of Expenditures and Other Financing Uses Over Revenues and Other Sources	(157,033)	(181,707)	(338,740)
Fund Balances - July 1, 2003	1,596,304	266,712	1,863,016
Fund Balances - June 30, 2004	\$ 1,439,271	\$ 85,005	\$ 1,524,276

City of South Lyon, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Special Revenue Funds Year Ended June 30, 2004

	Major Road	Local Road	Community Development Block Grant	Equipment Replacement	Drug Forfeiture	Land Acquisition	Cemetery Perpetual Care	Trailway Management Council	Total Nonmajor Special Revenue Funds
Assets									
Cash and cash equivalents	\$ 578,030	\$ 88,865	\$ -	\$ 158,923	\$ 49,141	\$ 122,840	\$ 533,449	\$ -	\$ 1,531,248
Due from other governmental units	61,338	24,819	-	-	-	-	-	-	86,157
Due from other funds	141,107	101,407	-	-	-	-	-	-	242,514
Other current assets	2,913	2,604	-	-	-	-	-	-	5,517
Total assets	<u>\$ 783,388</u>	<u>\$ 217,695</u>	<u>\$ -</u>	<u>\$ 158,923</u>	<u>\$ 49,141</u>	<u>\$ 122,840</u>	<u>\$ 533,449</u>	<u>\$ -</u>	<u>\$ 1,865,436</u>
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ 283,357	\$ 138,843	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 422,200
Accrued and other liabilities	2,263	1,702	-	-	-	-	-	-	3,965
Total liabilities	285,620	140,545	-	-	-	-	-	-	426,165
Fund Balances									
Reserved for future cemetery expenditures	-	-	-	-	-	-	40,392	-	40,392
Unreserved:									
Designated for subsequent year's expenditures	-	-	-	45,000	-	-	-	-	45,000
Undesignated	497,768	77,150	-	113,923	49,141	122,840	493,057	-	1,353,879
Total fund balances	497,768	77,150	-	158,923	49,141	122,840	533,449	-	1,439,271
Total liabilities and fund balances	<u>\$ 783,388</u>	<u>\$ 217,695</u>	<u>\$ -</u>	<u>\$ 158,923</u>	<u>\$ 49,141</u>	<u>\$ 122,840</u>	<u>\$ 533,449</u>	<u>\$ -</u>	<u>\$ 1,865,436</u>

City of South Lyon, Michigan

	Major Road	Local Road	Community Development Block Grant	Equipment Replacement	Drug Forfeiture
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	83,718	-	-
State sources	361,051	143,039	-	-	-
Local sources	-	-	-	-	-
Charges for services	-	-	-	58,151	-
Interest and other	6,065	2,262	-	1,135	1,689
Total revenues	367,116	145,301	83,718	59,286	1,689
Expenditures					
Community maintenance and development:					
Professional services:					
Major Street Paving Program - McHattie	76,475	-	-	-	-
Local Street Paving Program - Detroit, Lenox, and Washington	-	89,480	-	-	-
Other	1,249	1,249	-	-	-
Construction:					
Major Street Paving Program - McHattie	266,655	-	-	-	-
Local Street Paving Program - Detroit, Lenox, and Washington	-	193,214	-	-	-
Rail trail	-	-	-	-	-
Street routine maintenance	121,127	94,030	-	-	-
Traffic services	10,037	3,959	-	-	-
Snow plowing	40,408	25,916	-	-	-
Drainage and backslowing	2,260	2,150	-	-	-
Total community maintenance and development	518,211	409,998	-	-	-
Capital outlay	-	-	-	92,945	931
Total expenditures	518,211	409,998	-	92,945	931
Excess of Revenues Over (Under) Expenditures	(151,095)	(264,697)	83,718	(33,659)	758
Other Financing Sources (Uses)					
Operating transfers in	143,752	176,235	-	-	-
Operating transfers out	(47,305)	-	(83,718)	-	-
Total other financing sources (uses)	96,447	176,235	(83,718)	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(54,648)	(88,462)	-	(33,659)	758
Fund Balances - July 1, 2003	552,416	165,612	-	192,582	48,383
Fund Balances - June 30, 2004	<u>\$ 497,768</u>	<u>\$ 77,150</u>	<u>\$ -</u>	<u>\$ 158,923</u>	<u>\$ 49,141</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2004

Land Acquisition	Cemetery Perpetual Care	Trailway Management Council	Total Nonmajor Special Revenue Funds
\$ 38,450	\$ -	\$ -	\$ 38,450
-	-	-	83,718
-	-	-	504,090
-	-	20,314	20,314
-	-	-	58,151
<u>635</u>	<u>40,392</u>	<u>198</u>	<u>52,376</u>
39,085	40,392	20,512	757,099
-	-	-	76,475
-	-	-	89,480
-	-	62,763	65,261
-	-	-	266,655
-	-	-	193,214
-	-	25,000	25,000
-	-	-	215,157
-	-	-	13,996
-	-	-	66,324
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,410</u>
-	-	87,763	1,015,972
<u>-</u>	<u>-</u>	<u>-</u>	<u>93,876</u>
<u>-</u>	<u>-</u>	<u>87,763</u>	<u>1,109,848</u>
39,085	40,392	(67,251)	(352,749)
-	-	6,768	326,755
<u>-</u>	<u>-</u>	<u>(16)</u>	<u>(131,039)</u>
<u>-</u>	<u>-</u>	<u>6,752</u>	<u>195,716</u>
39,085	40,392	(60,499)	(157,033)
<u>83,755</u>	<u>493,057</u>	<u>60,499</u>	<u>1,596,304</u>
<u><u>\$ 122,840</u></u>	<u><u>\$ 533,449</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,439,271</u></u>

City of South Lyon, Michigan

Other Supplemental Information Schedule of Expenditures by Activity Major and Local Road Funds Year Ended June 30, 2004

Major Road Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 74,338	\$ 3,634	\$ 20,998	\$ 1,272	\$ 100,242
Fringe benefits	-	-	23,831	1,200	7,168	485	32,684
Operating expense	-	-	233	1,037	12,242	503	14,015
Professional services - McHattie	76,475	-	-	-	-	-	76,475
Professional services - Other	1,249	-	-	-	-	-	1,249
Traffic signals	-	-	-	4,166	-	-	4,166
Repairs and maintenance	-	-	3,670	-	-	-	3,670
Equipment rental	-	-	19,000	-	-	-	19,000
Insurance	-	-	55	-	-	-	55
Construction - McHattie	-	266,655	-	-	-	-	266,655
Total expenditures	\$ 77,724	\$ 266,655	\$ 121,127	\$ 10,037	\$ 40,408	\$ 2,260	\$ 518,211

Local Road Fund

	Professional Services	Street Construction	Street Routine Maintenance	Traffic Services	Snow Plowing	Drainage and Backsloping	Total
Wages and salaries	\$ -	\$ -	\$ 58,512	\$ 2,550	\$ 14,305	\$ 1,363	\$ 76,730
Fringe benefits	-	-	18,795	867	5,019	515	25,196
Operating expense	-	-	64	542	6,592	272	7,470
Professional services - Detroit, Lenox, and Washington	89,480	-	-	-	-	-	89,480
Professional services - Other	1,249	-	-	-	-	-	1,249
Repairs and maintenance	-	-	1,604	-	-	-	1,604
Equipment rental	-	-	15,000	-	-	-	15,000
Insurance	-	-	55	-	-	-	55
Construction - Detroit, Lenox, and Washington	-	193,214	-	-	-	-	193,214
Total expenditures	\$ 90,729	\$ 193,214	\$ 94,030	\$ 3,959	\$ 25,916	\$ 2,150	\$ 409,998

City of South Lyon, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Debt Service Funds June 30, 2004

	FHA Sewage Disposal System	1991 Special Assessment	1996 Advance Refunding Bonds	1996 Transportation Bonds	2000 General Obligation Water Bonds	Total Nonmajor Debt Service Funds
Assets - Cash and cash equivalents	\$ -	\$ 32,303	\$ 43,172	\$ 1,938	\$ 7,592	\$ 85,005
Fund Balances - Unreserved						
Designated for subsequent year's expenditures	\$ -	\$ 11,415	\$ 43,172	\$ -	\$ -	\$ 54,587
Undesignated	-	20,888	-	1,938	7,592	30,418
Total fund balances	\$ -	\$ 32,303	\$ 43,172	\$ 1,938	\$ 7,592	\$ 85,005

City of South Lyon, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Debt Service Funds Year Ended June 30, 2004

	FHA Sewage Disposal System	1991 Special Assessment	1996 Advance Refunding Bonds	1996 Transportation Bonds	2000 General Obligation Water Bonds	Total Nonmajor Debt Service Funds
Revenues						
Property taxes	\$ -	\$ -	\$ 80,141	\$ -	\$ -	\$ 80,141
Interest and other	-	199	347	9	34	589
Total revenues	-	199	80,488	9	34	80,730
Expenditures						
Debt principal payments	-	10,000	175,000	40,000	-	225,000
Interest and fiscal charges	-	1,915	4,944	7,305	59,323	73,487
Total expenditures	-	11,915	179,944	47,305	59,323	298,487
Excess of Expenditures Over Revenues	-	(11,716)	(99,456)	(47,296)	(59,289)	(217,757)
Other Financing Sources (Uses)						
Operating transfers in	-	-	-	47,305	59,323	106,628
Operating transfers out	(70,578)	-	-	-	-	(70,578)
Total other financing sources (uses)	(70,578)	-	-	47,305	59,323	36,050
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(70,578)	(11,716)	(99,456)	9	34	(181,707)
Fund Balances - July 1, 2003	70,578	44,019	142,628	1,929	7,558	266,712
Fund Balances - June 30, 2004	<u>\$ -</u>	<u>\$ 32,303</u>	<u>\$ 43,172</u>	<u>\$ 1,938</u>	<u>\$ 7,592</u>	<u>\$ 85,005</u>

City of South Lyon, Michigan

	Activity		
	Water Distribution System	Water Repair	Wastewater System
Personnel services:			
Salaries and wages	\$ 128,711	\$ 46,016	\$ 290,542
Fringe benefits	91,805	13,362	140,066
Total personnel services	220,516	59,378	430,608
Equipment repairs and maintenance:			
Equipment maintenance	1,729	15,200	3,138
Building maintenance	47,729	-	176,140
Total equipment repairs and maintenance	49,458	15,200	179,278
Public utilities:			
Gas	1,576	-	27,073
Electric	89,199	-	86,191
Telephone	4,298	-	1,726
Total public utilities	95,073	-	114,990
Refuse collection	-	-	-
Depreciation	354,110	-	374,319
Amortization	-	-	1,038
Total depreciation and amortization	354,110	-	375,357
Other services and charges:			
Professional services	86,280	-	7,543
Municipal service charge	21,000	-	21,000
Total other services and charges	107,280	-	28,543
Supplies:			
Office	1,290	-	1,237
Operating	43,301	3,354	88,936
Computer	817	-	817
Total supplies	45,408	3,354	90,990
Insurance	17,457	-	22,665
Other	5,027	-	3,600
Total operating expenses	<u>\$ 894,329</u>	<u>\$ 77,932</u>	<u>\$ 1,246,031</u>

Other Supplemental Information
Enterprise Fund - Water and Sewer Fund
Schedule of Operating Expenses
Year Ended June 30, 2004

Sanitary Sewer Repair	Solid Waste Collection	Sewer Construction	Year Ended June 30	
			2004	2003
\$ 31,173	\$ -	\$ -	\$ 496,442	\$ 506,576
8,307	-	-	253,540	222,755
39,480	-	-	749,982	729,331
31,533	-	-	51,600	26,344
-	-	-	223,869	150,640
31,533	-	-	275,469	176,984
-	-	-	28,649	19,558
-	-	-	175,390	163,889
-	-	-	6,024	6,337
-	-	-	210,063	189,784
-	416,564	-	416,564	396,490
-	-	3,966	732,395	596,448
-	-	-	1,038	1,038
-	-	3,966	733,433	597,486
-	-	90,112	183,935	24,861
-	-	-	42,000	42,000
-	-	90,112	225,935	66,861
-	-	-	2,527	2,249
1,223	-	-	136,814	129,063
-	-	-	1,634	2,168
1,223	-	-	140,975	133,480
-	-	-	40,122	38,956
-	-	-	8,627	1,629
\$ 72,236	\$ 416,564	\$ 94,078	\$ 2,801,170	\$ 2,331,001

Statistical Information

City of South Lyon, Michigan

Schedule of Taxes Levied, Collected, and Returned Delinquent - 2003 Tax Roll June 30, 2004

	<u>Final Levy</u>	<u>Taxes Collected</u>	<u>Returned Delinquent</u>	<u>Percent Collected</u>
Taxable Value: \$322,676,712				
City of South Lyon	\$ 4,527,045	\$ 4,370,534	\$ 156,511	96.54
Specials	4,408	4,136	272	93.83
Downtown Development Authority	28,924	19,850	9,074	68.63
Administration fee	85,331	81,631	3,700	95.66
Salem-South Lyon District Library	253,885	246,275	7,610	97.00
Oakland Community College	513,667	498,436	15,231	97.03
South Lyon Community Schools	3,810,966	3,611,903	199,063	94.78
State education	1,614,991	1,564,764	50,227	96.89
Oakland County	<u>2,595,305</u>	<u>2,492,355</u>	<u>102,950</u>	96.03
Total	<u>\$ 13,434,522</u>	<u>\$ 12,889,884</u>	<u>\$ 544,638</u>	<u>95.95</u>

City of South Lyon, Michigan

Continuing Disclosure Undertaking Fiscal Year July 1, 2003 - June 30, 2004

A. Taxable Value - Fiscal Year 2004-2005: **\$348,641,452**

B. Taxable Value by Use and Class - Fiscal Year 2004-2005

Use	Taxable Value	Percent of Taxable Value	SEV	Percent of SEV
Commercial	\$ 34,852,750	10.00	\$ 49,783,940	11.78
Industrial	6,080,740	1.74	8,605,350	2.04
Residential	292,971,161	84.03	349,142,330	82.64
Personal	14,736,801	4.23	14,974,210	3.54
Total	\$ 348,641,452	100.00	\$ 422,505,830	100.00

Class				
Real property	\$ 333,904,651	95.77	\$ 407,531,620	96.46
Personal property	14,736,801	4.23	14,974,210	3.54
Total	\$ 348,641,452	100.00	\$ 422,505,830	100.00

F. & G. Property Tax Rates by Governmental Unit - Fiscal Year 2004-2005

City of South Lyon	Rate	City of South Lyon	Rate
General operation	8.1950	Huron Clinton Authority	.2161
Capital improvements	2.3000	Oakland County	4.4336
Building Authority	.3050	Intermediate schools	3.3789
Building Authority - Land	.3300	Oakland Community College	1.5889
Land acquisition	.1200		
Debt service - Sewer G.O.	2.5000		
		South Lyon Community Schools	18.0000
		State education	6.0000
		South Lyon school debt	8.5000
Total City of South Lyon	13.7500	Total by governmental units	56.8700
District library	1.0025		

July 1, 2004 tax levy: \$4,793,820

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2003 - June 30, 2004

H. Property Tax Collections - Fiscal Year 2003-2004 (as of 6-30-04) - 96.09% for Fiscal Year Ending 2004: In Process of Collection

I. 10 Largest Taxpayers - Fiscal Year 2004-2005

Taxpayer	Principal Product or Service	Taxable Value
Colonial Hunt Club (Phase V)	Co-op	\$ 19,017,710
Colonial Acres Development (Phases I-IV)	Co-op	10,584,130
Brookwood Farm, LLC	Rental properties	6,680,800
Quanex Corporation	Tubular mill	3,404,280
Brookdale Assoc. LTD Partners	Rental properties	3,335,130
J.R. Management Company	Apartments	2,475,260
Wolverine Property Investment	Mobile home park	2,191,840
Carriage Trace Associates	Subdivision	2,171,220
Hadley & Associates	Commercial	1,753,930
Lake Street Associates	Rental properties	1,240,570
Total		<u>\$ 52,854,870</u>

J. Distributable Aid - State-shared Revenue - Fiscal Year 2003-04: \$908,719

K. Legal Debt Margin

The following table reflects the amount of additional debt the City may legally incur as of June 30, 2004:

Debt limit (I)		\$ 42,250,583
Debt outstanding	\$ 14,579,465	
Less exempt debt	<u>110,000</u>	<u>14,469,465</u>
Legal debt margin		<u>\$ 27,781,118</u>

(I) 10 percent of the City's \$422,505,830 SEV for the fiscal year ended

Source: Municipal Advisory Council of Michigan and the City of South Lyon

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2003 - June 30, 2004

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of June 30, 2004.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds in the following table, which are designated as "UT." However, the City's ability to levy tax to pay the debt service on the bonds, which are designated as "LT," is subject to applicable charter, statutory, and constitutional limitations.

City Direct Debt	Gross	Self-supporting	Net
General obligation bonds:			
Dated September 1, 2000 (UT)	\$ 1,195,000	\$ -	\$ 1,195,000
Dated December 6, 1996 (UT)	10,000	-	10,000
Subtotal	1,205,000	-	1,205,000
Building Authority bonds:			
Dated July 1, 1999 (LT)	1,125,000	-	1,125,000
Dated September 1, 1996 (LT)	1,490,000	864,945 (1)	625,055
Subtotal	2,615,000	864,945	1,750,055
Special assessment bonds -			
Dated June 1, 1991 (LT)	15,000	15,000	-
Michigan Transportation Fund bonds -			
Dated July 1, 1996 (LT)	95,000	95,000	-
State Revolving Fund Loan -			
Dated March 27, 2003 (UT)	10,286,378	-	10,286,378
Installment purchase obligations:			
Dated June 7, 2000 (LT)	330,977	-	330,977
Dated December 6, 1996 (LT)	32,110	-	32,110
Subtotal	363,087	-	363,087
Total	<u>\$ 14,579,465</u>	<u>\$ 974,945</u>	<u>\$ 13,604,520</u>
Per capita net City direct debt (2)			\$ 1,355.57
Percent of net direct debt to SEV (3)			3.22%

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2003 - June 30, 2004

Overlapping Debt (4)	Gross	City's Share as	
		Percent of	Net
		Gross	
South Lyon Schools	\$ 169,670,000	22.15	\$ 37,581,905
Oakland County	73,460,291	0.61	448,108
Oakland Intermediate School District	11,200,000	0.61	68,320
Oakland Community College	12,325,000	0.61	75,183
Salem-South Lyon District Library	1,915,000	53.99	1,033,909
Totals	<u><u>\$ 268,570,291</u></u>		<u><u>\$ 39,207,425</u></u>

Per capita net overlapping debt (2) \$ 3,906.68
Percent of net overlapping debt to SEV (3) 9.28%

Per capita net direct and overlapping debt (2) \$ 5,262.25
Percent of net direct and overlapping debt to SEV (3) 12.50%

(1) Represents 58.05 percent of the 1996 Building Authority Bonds, which is being paid by the South Lyon Schools

(2) Based on the City's 2000 Census population of 10,036

(3) Based on \$422,505,830, which is the City's SEV for the fiscal year ended

(4) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of South Lyon

August 9, 2004

To the Honorable Mayor and
Members of the City Council
City of South Lyon
335 South Warren
South Lyon, MI 48178

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of South Lyon for the year ended June 30, 2004. As part of our audit, and in addition to our audit report, we have the following comments and recommendations for your consideration.

FINANCIAL RESULTS/PLANS

The City's General Fund fund balance decreased in the current year from approximately \$3,560,000 to \$3,242,000. This decrease was expected and prepared for as demonstrated by the approximately \$302,000 of fund balance that was designated to balance the original 2003-2004 budget. We recognize that the success of the year's financial results are the result of close monitoring and control by the management team and the City Council. As we know you are well aware, the 2004-2005 fiscal year may be even more challenging, and we encourage the City to continue to closely monitor this year's budget.

INTERNAL CONTROL

As a result of the City receiving in excess of \$500,000 of federal monies for the Waste Water Treatment Plant construction and the DDA Streetscape project, we were required to perform an "A-133 single audit", which is a more comprehensive compliance audit related to the federal funds received through the State Revolving Fund financing program and from the Michigan Department of Transportation (MDOT). Testing performed in conjunction with this A-133 audit revealed no findings that would require disclosure in the supplemental financial statement prepared for the A-133 single audit. Because of the numerous and complex rules and regulations which the City must comply with as the recipient of federal funds, it is unusual that this comprehensive compliance audit does not result in some findings. As a result, the City should feel a sense of accomplishment on maintaining proper internal controls related to the transactions associated with the Revolving Fund program and MDOT.

To the Honorable Mayor and
Members of the City Council
City of South Lyon

August 9, 2004

MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (which means for South Lyon that filing is due December 31, 2004) and is good for one year thereafter.

REVENUE SHARING

As you are well aware, the slow down in the State's economy continues to directly affect the General Fund. State shared revenue accounts for approximately 22.4% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, revenue sharing payments for the State's upcoming fiscal years are less than originally projected. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

To assist the City in projecting state shared revenue payments, the Michigan Department of Treasury website is located at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp>.

NEW FINANCIAL REPORTING MODEL

As we discussed in previous years, the City has adopted GASB 34 as of July 1, 2003. Some of the changes you will notice in this year's financial statements include:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis. There are two columns, one for government activities and one for enterprise activities
- Capital assets of governmental activities (including roads and the City owned buildings) and their related depreciation is reported

It would be an understatement to say that this new reporting model has had a significant impact on the City's finance department. In order to assist the finance department going forward, we encourage the City to consider the merits of purchasing additional software in order to track and depreciate the capital assets of the City.

To the Honorable Mayor and
Members of the City Council
City of South Lyon

August 9, 2004

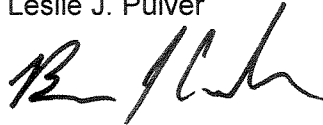
We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

PLANTE & MORAN, PLLC



Leslie J. Pulver



Brian J. Camiller